

The impact of industry role players on the competitiveness and profitability of an entity in a volatile environment

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Abstract

In the face of numerous challenges that organisations encounter they cannot survive independently of the industry in which they operate. Constant interaction with industry role players and the ability to adapt and align organisational strategies to changes within the industry are instrumental to improved profitability. This study aimed to better understand the impact that industry role players have on their profitability and competitiveness in a volatile environment. Such an appreciation will assist organisations to continuously adapt their strategies to industry variations. The airline industry was selected because of its volatility that has seen a decline in the profitability of airlines operating worldwide; and Air Zimbabwe in particular because of the extreme macro and micro environmental forces under which it operates. Zimbabwean aviation industry employees' in current employ at Air Zimbabwe, employed by foreign airlines, travel agents, ground handling agents and aviation regulators were interviewed. The impact on competitiveness and profitability of six major industry role players (competitor airlines, suppliers, buyers, substitute products, new entrants and regulatory authorities) in the airline industry was analysed. There was general consensus among respondents that industry role players strongly impact on both the profitability and competitiveness.

Key Phrases: Airline industry, Competitiveness, Industry role players, Profitability

INTRODUCTION

Changing business models and substantially increased competition have transformed air transport markets and the airline industry over the last 40 years. The value created to the airline passenger, employee, supplier and the broader economy is overwhelming

(http://www.iata.org/pressroom/facts_figures/Documents/Vision-2050.pdf). Despite a ten-fold rise in passenger numbers and a fourteen-fold increase in cargo volumes the industry has been rocked by terrorism attacks, wars, revolutions, pandemic fears, earthquakes, volcanoes, failing economies and skyrocketing fuel prices; all of which have negatively affected sustainable profits

(Bisignani 2011
<http://www.iata.org/pressroom/speeches/pages/2011-06-06-01.aspx>).

An entrepreneur is rewarded with profit for taking risk, bearing uninsurable risks, engaging his services and product and service innovations that reduce production costs (Jain and Khanna 2010: 172). Walker (2003: 43) asserts that a firm's performance is influenced by the characteristics of the industry in which it operates which determine the price, value and cost of products and services. Thompson and Martin (2005: 247) caution that, in industries such as airlines where forces are intense, almost no company earns attractive returns on investment. Competitors thus determine how much of a product is produced, at what price and the level of competition for labour, capital, entrepreneurship and material. Competitive advantage thus enables an organisation to create superior value for its customers and superior profits for itself (Grant 2005: 232).

Profitability is consequentially not only dependant on the organisation's actions but also on the actions of rival companies and the possible retaliatory actions of competitors to any strategies employed (Mohr & Fourie 2004: 291). Intensity of competition within the industry is thus dependant on the extent to which the cost structure permits companies to compete in the long and short run (Thompson & Martin 2005: 73). The more fiercely firms compete to obtain a larger share of industry profits

the smaller the disposable industry profits become (Mohr & Fourie 2004: 291). According to Porter ME, Lawrence BW and Pearce B 2011 http://www.iata.org/pressroom/facts_figures/Documents/Vision-2050.pdf, IATA asserts that there are few industries where all five forces of rivalry, new entrants, customer and supplier bargaining power, and the threat of substitutes act so strongly to depress profitability as they do in the airline industry, resulting in poor airline profitability. Low industry profitability is further driven by challenging underlying industry economics, suppliers who pursue price-oriented competition as well as government policies and industry regulations and standards which limit exit and hinder effective competition among different business models.

COMPETITIVENESS AND PROFITABILITY

As shown in Figure 1 below, in determining industry profitability, it is important for organisations to look beyond immediate competition to the bargaining power of buyers and suppliers, and threats from substitute products and new entrants (Thompson & Martin 2005: 172).

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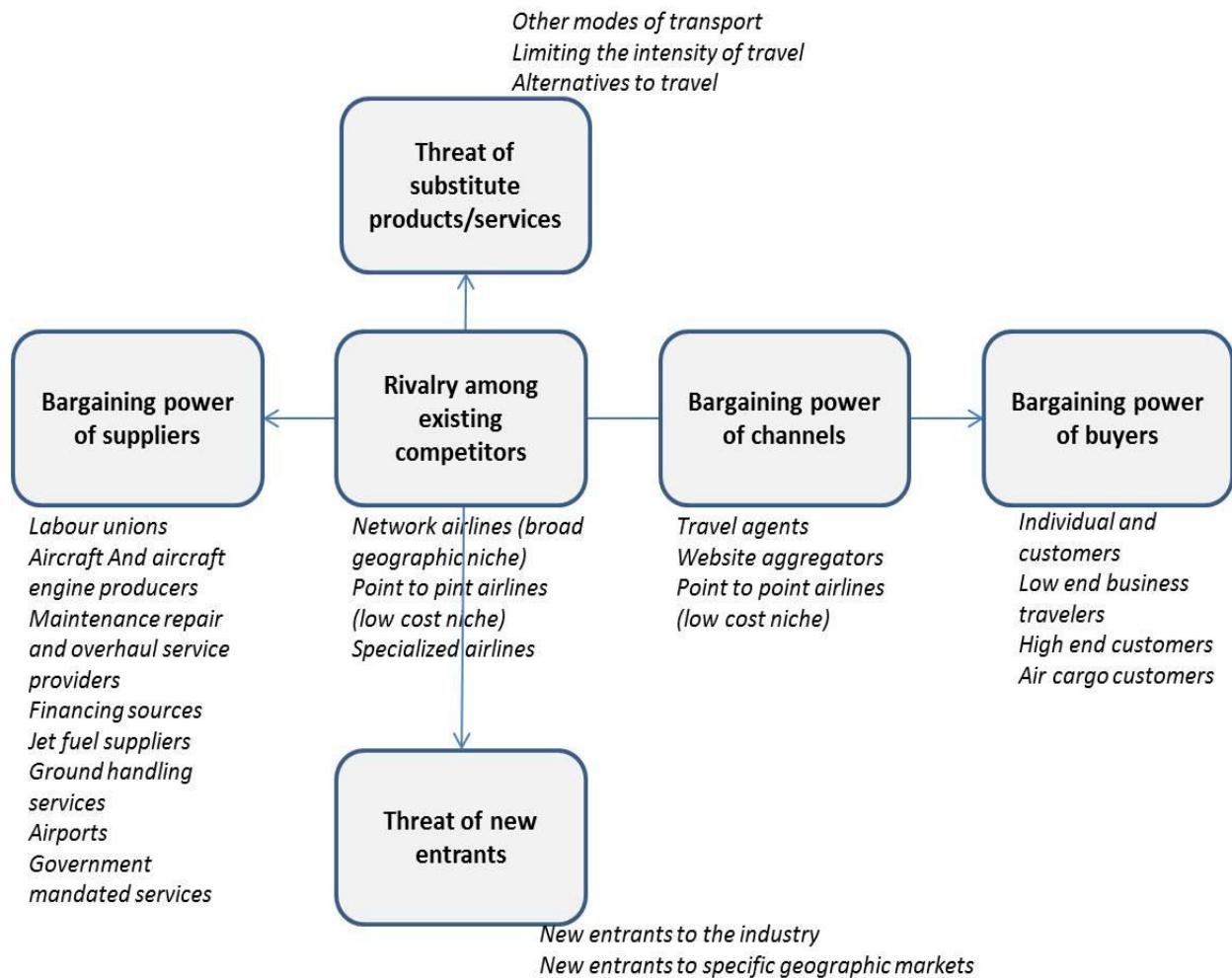


FIGURE 1: DETERMINANTS OF AIRLINE INDUSTRY PROFITABILITY

Source: Porter et al 2011 http://www.iata.org/pressroom/facts_figures/Documents/Vision-2050.pdf

The airline industry generally earns low returns because the cost of competition is high and this is highly detrimental when there are challenges in the economy. Companies are interdependent as the competitive actions or moves of one company directly affect the market share and consequently the profitability of rivals (Hill & Jones 2004: 45). During the years of regulation the extent of competition within the airline industry was largely based on non-price differentiation strategies such as customer service, in-flight food and in-flight entertainment (Grant 2008: 33). After

deregulation, market competition forced airlines to come up with more efficient ways of using their fleet in order to compete for customers on the basis of low cost, convenience, and attractive service. This competition has taken the form of frequent price changes and a variation of prices paid by passengers on the same flight depending on the time of purchase, the rebooking conditions and the class of service (Robson JE 1998 <http://www.cato.org/sites/cato.org/files/serials/files/regulation/1998/4/airline2-98.pdf>).

Different groups of customers have different bargaining power within the same industry. The buyer can reduce industry profitability by forcing down prices and yet demanding better service and products thus increasing costs. Dess, Lumpkin and Taylor (2004: 52) believe that buyers can erode industry profitability by playing competitors against each other through their actions and words. Thompson and Martin (2005: 176) assert that the power of buyers is determined by: their size and concentration; the degree of product standardization; ability of buyers to switch suppliers; and the probability of vertical integration.

Even though substitutes are always present, the threat of substitution can be downstream or indirect and easily overlooked. Substitution has the potential of diminishing profits within an industry by placing a ceiling on prices. In a competitive industry, products are replaceable and no producer can influence price (Mohr & Fourie 2004: 289). It is therefore essential in business to remain alert to changes in other industries that may make them attractive substitutes. Grant (2005: 74) maintains that e-commerce, coupled with the derived nature of demand for transportation and the significance of air travel as a discretionary spending item, has strengthened the impact of communication technology as a strong substitute to air transportation. Therefore it is essential to be affiliated to a network that has flexible connections and many frequencies so as to reduce flight times thereby increasing the propensity to travel.

As Frank and Bernanke (2003: 193) point out, in many instances businesses desert locations and industries where prospects appear bleak and migrate to those with more plentiful profit opportunities. Crouch (2008: 57) underscores the need to appreciate the terms on which organisations compete, the clients they serve as well as other stakeholders whose actions can affect or are affected by the organisation and their preferences and sources of competitive

advantage within the industry, in order to fully understand the competitive context. This understanding provides an appreciation of the framework for identifying factors that will possibly affect profitability of the industry.

The Value Net Framework, developed by Brandenburger and Nalebuff (1996) underlines that each organisation is surrounded by partners whose products/services complement it, rivals who compete with the organisation, suppliers who provide the organisation with inputs and raw materials and customers who are the destination for the organization's products (Brandenburger AM & Nalebuff BJ 1996 <http://www.provenmodels.com/593>). The key relationships that increase value to the organisation are 1) suppliers who provide resources to all industry players; 2) competitors who make the company's products or services seem less valuable; 3) complementors who provide products or services that add value to whatever the company offers; and 4) customers who are the core reason for organisational existence; rather than competition for dominance (Walker 2003: 46).

More and more organisations are changing the nature of the business environment to their own advantage by combining the advantages of both competition and cooperation in order to generate more profits and increase competitiveness. Even though partnerships limit the freedom to compete they present new opportunities. Co-opetition stimulates creativity; by focusing on change, it keeps business forward looking; by promoting growth, it makes business both more profitable and more personally satisfying; by challenging the status quo, co-opetition says things can be done differently - and better (Brandenburger AM & Nalebuff BJ 1996 <http://www.provenmodel.com/593>). 2009 statistics for the three largest international airline alliances – Star Alliance, Sky Team and Oneworld show that they control over

73% of the world's market share (<http://www.aviationknowledge.wikidot.com/aviation:global-alliance>). In addition, according to Grant (2008: 33) partnerships with car rental companies, hotel chains, tour operators and credit card issuers have been an important source of additional revenue to airlines earning them over US\$10 billion annually.

METHODOLOGY

Both qualitative and quantitative approaches were used to gain an understanding about factors relating to competitiveness and profitability. Using the notion by Wiid and Diggines (2009: 88) that the brainstorming characteristic of qualitative research is a useful pre-piloting technique, the main aim of the qualitative research stage was to determine the impact of regulatory authorities and suppliers on Air Zimbabwe's survival and the extent to which the Zimbabwean Government's gradual liberalisation towards open skies will affect profitability. Five individuals, made up of three senior managers from Air Zimbabwe, one Civil Aviation Authority of Zimbabwe (the aviation regulatory authority in Zimbabwe) employee and one National Handling Services (the major ground handling company of airlines in Zimbabwe) employee participated in the qualitative stage of the research. The major selection criterion for individuals was a minimum of fifteen years aviation industry experience which was verified with the human resources departments of all three organisations. This criterion guaranteed insightful answers to the questions asked.

This phase was followed up by a quantitative survey conducted on a randomly selected group restricted to travel agents and airline employees operating within Harare. Information collected in the qualitative stage was used in the formulation of the research questionnaire. In order to ensure completeness and accuracy and to eliminate duplication, airline and

travel agent directories were obtained from the Civil Aviation Authority of Zimbabwe and the Association of Zimbabwe Travel Agents, respectively. Fifty percent of the 60 travel agents operating in Harare, and all eleven airlines operating into Zimbabwe were used in the research.

QUALITATIVE RESULTS

Profitability and competitiveness

The general consensus among respondents was that the main aim of Zimbabwe's national flag carrier was never profitability but rather to provide a national service and to facilitate economic growth in Zimbabwe's tourism sector and other downstream industries such as agriculture and mining. Over the years, Air Zimbabwe has always incurred marginal losses except for brief periods of the 1995/1996 and 1999/2000 financial years when it recorded profits. One participant cited the major turning point for the airline were massive retrenchments in 1998 and 1999 which emptied the airline's coffers resulting in increased borrowing and reliance on government funding. Another interviewee identified the lack of continuity in leadership which resulted in investment in several projects which were not followed through to completion as negatively impacting on profitability.

Respondents were also in agreement that before 2000 the airline was competitive especially on routes such as London and Johannesburg as is evident by "Best Airline out of Africa" award received in 1999. The farm invasions and ensuing violence in the country during the 2000 general elections resulted in the imposition of sanctions, the issuing of travel warnings and the beginning of hyper inflation in the economy all of which resulted in a massive decline in tourist arrivals into the country and the consequent departure of most international airlines from the country. A respondent highlighted that over the years the airline also

underestimated the value of training and participation in industry forums and when the great depression began this was the first area that was affected by cost cutting. The resultant effect was a huge drop in the competitiveness of the airline because of inadequate skills training.

Impact of stakeholders

Interviewees named the individual stakeholder who can improve the airline's competitiveness and profitability as the Government of Zimbabwe who is the 100% shareholder. A participant pointed out that Bilateral Investment Protection Agreements is not being honoured, thus limiting direct investment into the country. Three respondents suggested that the shareholder should leave the running of the airline to experts so that they can be accountable whilst it concentrates on policy issues as the lack of corporate governance has impacted on the airline's performance. Another participant mentioned that there is no policy making body therefore decisions being made are haphazard and incompetent. Instead the government should create an aviation policy platform which should include all concerned ministries including tourism, finance, transport, state enterprises and trade to come up with policies that govern the Zimbabwean aviation industry.

Regulation

All interviewees agreed that, currently, there are no prevailing aviation rights that give Air Zimbabwe priority in the Zimbabwean aviation industry. A participant cited that even though there seems to be a monopoly on the domestic sector there are actually fifteen airlines which have been awarded traffic rights to ply domestic routes but unfortunately they are just briefcase companies. Two respondents pointed out that the only priority that the national airline enjoys is that government officials are mandated to travel on Air Zimbabwe to destinations where it operates but regrettably there are no monitoring mechanisms in place that enforce this

legislation. A participant pointed out that the general practice is that governments first capacitate their own national airlines through capital injection and equipment facilitation so as to first empower them such that they are able to counter the resultant competition from an open skies policy. In Zimbabwe however, the gradual liberalisation towards open skies is being implemented against a crippled national airline which lacks government support. In addition, the provision of fifth freedom traffic rights to competitor airlines has resulted in unfair industry practices.

Respondents identified the following benefits of the open skies policy to the Zimbabwean aviation industry: 1) Development of Harare as an alternative southern African hub to Johannesburg; 2) increased connectivity attracts demand as has been evident through other successful African hubs like Johannesburg, Nairobi and Addis Ababa and consequently these are now attractive destinations; 3) infrastructure development through the upgrading of airports; 4) a reduction in unemployment levels as more jobs are created through the aviation sector; 5) potential economic growth because of the resultant increase in tourism and trade; and 6) increased competition will result in more market driven fares.

Although four participants agreed that liberalisation will lead to a decline in air fares prevailing in Zimbabwe one respondent highlighted that it is normal industry practice for airline fares to be seat cost driven so liberalisation will have a minimal impact on current fares in the market. Distortions to airfares are actually caused by taxes imposed by airport and other regulatory authorities and airline surcharges to hedge against unexpected fuel and insurances increases. Interviewees indicated that competition is healthy and the open skies policy will positively impact the airline as Air Zimbabwe will be pushed to improve its cost management through the

operation of a more cost effective fleet and also a reduction and more efficient utilisation of employees. One participant however considered this as a long term advantage as it will take approximately five years to change the mindset of the employees. Another respondent thought the greatest benefit is to the customer who will enjoy a wider choice, better service and consequently more market driven fares.

Safety and the environment

All respondents concurred that the airline is currently meeting international safety standards as is evident by the absence of any fatal or major accidents since 1980, but it urgently needs to renew the IATA Operational Safety Audit. With adequate resources, it is quite evident that the airline has the capacity to pass the audit which it successfully passed twice before. While one participant noted that adherence to international environmental standards is guided by the manufacturer and the airline's role is largely centred on maintenance. Another respondent highlighted that the airline is only complying with carbon emission regulations especially in the European Union because of low frequencies however a potential expansion of the route network will require stricter conformance to environmental regulations. Furthermore,

from 2014 the Boeing 737-200 will no longer be permitted to operate to most destinations because of high noise levels as these aircraft have been in the market for over 25 years and are now well beyond their economic life as is evident by their high maintenance costs so it is time the airline disposes of them. This will definitely impact on the airline's profitability as the airline owns three B737-200 aircraft which operate its regional and domestic routes.

QUANTITATIVE RESULTS

The independent variables industry role players; competitor airlines, suppliers and regulatory authorities, were rated higher than the average mean for both research constructs. Even though new entrants, buyers and substitute products also had a strong impact on competitiveness and profitability, these industry role players were rated lower than the average mean for both research constructs. General similarities of standard deviations calculated indicate that there were no vastly different opinions among respondents about the impact of the six industry role players on both competitiveness and profitability. Findings revealed that there is a positive correlation between the impact of industry role players on competitiveness and on profitability as is revealed in Table 1 below.

TABLE 1: IMPACT OF INDUSTRY ROLE PLAYERS ON COMPETITIVENESS AND PROFITABILITY

Impact on competitiveness			Impact on profitability		
Industry role player	Mean	Standard deviation	Industry role player	Mean	Standard deviation
Competitor airlines	4.08	1.096	Competitor airlines	4.16	0.898
Suppliers	3.67	1.297	Suppliers	3.78	1.005
Regulatory authorities	3.53	1.114	Regulatory authorities	3.67	1.197
<i>Average mean</i>	<i>3.52</i>		<i>Average mean</i>	<i>3.60</i>	
New entrants	3.41	1.240	New entrants	3.47	1.226
Substitute products	3.24	1.051	Buyers	3.43	1.000
Buyers	3.22	1.240	Substitute products	3.12	1.148

Ranking of the variables by their mean scores, as illustrated in Table 1 above, illustrates that competitor airlines had the greatest impact on both competitiveness and profitability. 39% of respondents rated the impact of competitor airlines on airline profitability as very high, while 47% rated their impact as high. On the other hand, 43% of respondents rated the impact of competitor airlines on the airline's competitiveness as very high, whilst 37% of respondents rated their impact as high. This response emphasized rating of overall competitiveness within the airline industry by 76% participants as high.

67% of participants pointed out that the competitiveness of Air Zimbabwe would improve if it operated as a traditional airline while 15 respondents (31%) were of the opinion that Air Zimbabwe should operate as a low cost carrier. One interviewee preferred the cargo carrier alternative while none of the respondents opted for the charter option. 45 respondents (92%) believed that Air Zimbabwe should continue operating as a national flag carrier against 4 participants (8%) who were against the proposal.

Co-opetition

96% of respondents were inclined to believe that partnerships with other airlines would improve the competitiveness of Air Zimbabwe while only 4% were against the idea since most companies can achieve more success in a dynamic industry than they ever could working alone. Respondents were of the opinion that some of Air Zimbabwe's problems of perception, reliability and punctuality can be addressed through compliance to alliance conditions. Sky Team advocates (8% of respondents) pointed to the fact that moving away from the major competitors and expanding into new markets would increase the competitiveness of Air Zimbabwe. On the other hand, 14% of respondents argued that Zimbabwe has over 400 British companies and is historically linked to Britain, thus

strategically making Zimbabwe a very suitable southern African hub for the One World alliance. Star Alliance however came out as the top alliance of choice with 38 supporters (78%). Boasting of the widest network it was believed to be able to provide more seamless connections to major cities of the world thereby providing the fastest growth potential into key markets for Air Zimbabwe.

Over 60% of respondents recommended partnerships with tour operators, hotels and travel agents. The ranking of related organisations by mean indicated that travel agents and tour operators have a mean higher than the average mean of 4.19. The partnership that received that strongest recommendation by 32 respondents was with travel agents while tour operators were a close second with 27 respondents. Partnerships with hotels and car rental companies were on the overall rated third and fourth, respectively. Although mean responses decreased to 3.67 they still indicated a recommendation for partnerships with related organisations. Interestingly, travel agents who recorded the highest mean score of 4.61 had the lowest standard deviation of 0.570 while car rental companies who attained the lowest mean score of 3.67 had the highest standard deviation of 1.048.

Competitors

When compared to competitor airlines, respondents on the average rated Air Zimbabwe fares as being between cheap and fair. Only 4 respondents believed that cost was a factor that affected the airline's competitiveness. In relation to the product offered when compared to competitor airlines, 23, 18 and 17 respondents respectively, rated the airline's domestic, regional and international fares as fair. This notion directly relates to the fundamental principle that price is a statement of value in a market driven economy. Furthermore, 49% and 27% of respondents identified fares being charged as very strongly and

strongly impacting on the low profitability of the airline.

Suppliers

According to responses received from 30 participants (61%) Jet A1 fuel suppliers were perceived to take the most advantage of the volatile airline environment. The International Air Transport Association (IATA) estimates the average Jet A1 fuel price for 2012 as USD128.5 per barrel constituting between 28% and 34% of operating costs within the airline industry and between 32% and 38% for Air Zimbabwe. The impact of other suppliers including financiers (18%), employees (10%), ground handling service providers (6%) and aircraft manufacturers (4%) was rated lower.

When selecting the market segment that is likely to most improve the airline's profitability, respondents favoured the tourist market with 15 respondents selecting this segment. The 11 respondents who selected the high-end business traveller argued that the low price sensitivity of the business traveller makes them a more profitable option especially based on the growing mining sector which they predicted will attract more business investors. Those against this segment highlighted the current low connectivity and subsequent limited onward connections due to absence of partnerships with other airlines which currently deters business travel on Air Zimbabwe. Participants also highlighted that whilst business travel is a high revenue earner it has the disadvantage of being easily reduced in frequency or postponed dependent on organisational performance, urgency and perceived benefit to sponsoring companies. 9 respondents considered cross border traders as a more profitable segment. 9 participants were unsatisfied with the individual choices available and argued that no stand-alone segment could be profitable but rather a combination of the customer groups automatically cancels out the disadvantages

of each segment such as seasonality of tourists, low business volumes for the high-end business travellers and air cargo customers and price sensitivity of personal travellers and cross border traders.

Substitute products

Responses on the impact of substitute products revealed that both sea and rail transportation have a weak to very weak impact on the airline's profitability according to more than 60% of interviewees. Means for both these substitute services were rated below the average mean point of view of 2.78. Road transportation and communication technology on the other hand were considered to have a strong to very strong impact by more than 50% of respondents. The mean response for the impact of road transportation was 3.33 which was higher than the average mean for the different substitute products of 2.78. Interestingly though, was the extent to which communication technology was viewed as impacting the airline's profitability. The highest mean of 3.57 was in relation to the threat posed by communication technology.

Regulatory authorities

The 17 interviewees identified regulations imposed by the International Air Transport Association (IATA) as likely to most impact on the airline's profitability. Those named were: suspension from IATA; expulsion from IATA Billing Settlement Plan (BSP); failure to renew the IATA Operational Safety Audit (IOSA); expulsion from IATA Clearing House (ICH); and implementation of Simplifying the Business (StB) initiatives by IATA. IATA also governs global safety and security standards through its IOSA registration and membership to the international airline association is now on condition of successful renewal of the IOSA audit. Participants sighted the fact that most international destinations will not permit an airline which has not complied with safety standards thereby limiting the possible route network that it is able to operate in thus

reducing potential revenue generation capacity. In addition, participation in BSP and ICH simplifies and facilitates payments among airlines and travel agents thus increasing ticket sales. The StB initiative which was implemented to reduce airline operating costs and lead to an improvement of environmental standards through paperless operations requires huge capital investments in employee training and information technology system upgrades.

Other regulations that were sighted by respondents as likely to most affect the profitability of Zimbabwe's national flag carrier include: Air navigation regulations imposed by the Civil Aviation Authority of Zimbabwe such as navigation charges, airport development levies, airport departure taxes and restricted flight crew duty time schemes; Government policies especially the open skies policy; The banning of all aircraft manufactured before 1990 which are now identified internationally as "dirty aircraft" by December 2012 by many countries; and The Yamasokro declaration by African governments which will permit fifth freedom traffic rights and the operation of domestic flights by foreign carriers;

The modal view for both impact of government intervention on competitiveness (23 respondents) and profitability (20 respondents) was negative whilst 12 respondents believed that the impact was actually very negative for both research constructs. Participants highlighted the need for less government interference in the operational management of the airline and the adoption of new strategies. Government, being the 100% shareholder of Air Zimbabwe, was perceived to have made decisions that have directly influenced the poor profitability of the airline. Top on the list was funding of the airline with 40 respondents confirming that government decisions have had a high to very high impact on profitability. The average opinion of the extent to which government decisions on funding have influenced the poor

profitability of the airline was 4.10. Decisions on the acquisition of aircraft were rated as highly impacting on profitability by 35 interviewees. Government decisions on routes flown were perceived to least impact on profitability with 22 respondents rating them as high to very high. Government decisions on funding and aircraft acquisition were rated by respondents above the average mean of 3.71 indicating a high impact on the poor profitability of the airline while those on the selection of management and routes flown were however rated lower. Similarity of the calculated standard deviations indicates general agreement among respondents that government decisions on the four named factors (aircraft acquisition, routes flown, management selection and funding) have influenced the poor profitability of Air Zimbabwe.

Buyers

Of the five named operational factors; expulsion from IATA Clearing House, disconnection of reservations systems, aircraft being operated, fares being charged and network structure, that are directly linked to the bargaining power of buyers within the airline industry, there was general agreement that they all strongly on the low profitability of the airline as indicated by the similarity of standard deviations calculated. Expulsion from IATA Clearing House, and disconnection of reservations systems were rated higher than the average mean of 4.37 with means of 4.73 and 4.65 respectively. While 42 participants highlighted that the expulsion of Air Zimbabwe from the IATA Clearing House had a very strong impact on the poor profitability of the airline, 5 viewed the impact as strong. The disconnection of Air Zimbabwe's reservations systems was viewed as very strongly impacting on the airline's poor profitability by 40 respondents whilst 6 respondents rated the impact as strong. Although the mean variables for aircraft operated (4.00), fares being charged by the airline (4.14) and the network structure being operated (4.33) were rated

lower than the average mean score they still reflect a strong impact on the airlines low profitability. The airline's network structure and fares being charged were both identified by 49% of participants as having a very strong impact on profitability while 37% and 27%, respectively thought the impact was strong. Impact of the aircraft being operated was rated as very strong by 14 respondents and strong by 24 respondents.

DISCUSSION

Increased political and economic pressure for governments to open up their markets will require flag carriers to reshape their strategies as they separate commercially viable operations dependent on disposable income levels and the propensity to travel (Serpen E and O'Toole K 2002 <http://www.connection.ebscohost.com/articles/7587537/fag-bearers>). Air Zimbabwe can however enjoy the following advantages of operating as a national flag carrier as identified by Lijesen, Nijkamp, Pels and Rietveld (2005), operating direct flights; offering increased frequencies to home airports; raising fares above cost levels; providing national pride; easily adjusting to local preferences; limiting cultural taste variations and economies of density in marketing the home region. It is essential for the airline to separate commercially viable services from those operated out of social or political obligations and to either eliminate or ring fence unprofitable operations. The research however highlighted that Air Zimbabwe will enjoy greater benefits from joining other airlines and related organisations than continuing to operate as a stand-alone airline.

While it may still be profitable to charge lower than competitor fares, the lowering of prices is only viable if an airline is able to attract the required masses to fill up its available capacity thereby remaining profitable. Following the 2008 global economic recession which resulted in passenger demand decreasing in many markets by between 15% and 20%, many

airlines resorted to discounting fares so as to maintain market share levels and attract customers. This resulted in fierce price wars across the globe as competition became more aggressive (<http://www.investopedia.com/features/industryhandbook/airline.asp#ixzz1hjKPprWd>). According to 2011 statistics from the Civil Aviation Authority of Zimbabwe, although Air Zimbabwe operated the most frequencies and enjoyed a monopoly of domestic operations within Zimbabwe, it only controlled 23% of the Zimbabwean market. It is therefore apparent that the low prices charged by the airline failed to attract the required masses to make the organization a profitable entity.

Research statistics confirm the impact that Jet A1 fuel suppliers have to the profitability of airlines and Air Zimbabwe in particular. Landlocked countries such as Zimbabwe actually pay more for fuel because of additional transportation costs. Although Jet A1 fuel suppliers mostly impact the profitability of airlines, fuel prices are determined by the base station and the price at any given location is almost uniform because of the oligopolistic nature of suppliers. It was noted that if the government, which governs the granting of licences to Jet A1 fuel suppliers in Zimbabwe, increases the number of suppliers, prices are likely to go down in the region because of enhanced competition as forces of supply and demand take effect.

The source of power for the airline employee is his expertise, experience, marketability and high mobility tendencies. Options mentioned which can reduce the bargaining power of employees are, the introduction of ownership options, continuous training and bonding which will result in currently scarce skills being more abundant and the outsourcing of services such as aircraft maintenance. The few suppliers of aircraft and aircraft spares which are concentrated in Europe and the United States of America operate like a

cartel giving them a high bargaining power. Unfortunately, outsourcing and the use of third parties for procurement of aircraft spares by Air Zimbabwe because of unhealthy relations with original suppliers has distorted the purchase price of aircraft spares by the airline. Collaboration with other African airlines with a common fleet and the consequent pooling of the purchasing function for both Jet A1 fuel and aircraft spares with the assistance of airline associations such as the African Airlines Association can reduce the bargaining power of suppliers through economies of scale. A shortfall to the implementation of such a strategy is the operation of a diverse aircraft fleet which lacks commonality with bigger competitor airlines in the region operating a much more modern fleet. Unfortunately due to cut throat competition and volatility of the industry airlines are failing to cooperate in order to reduce the bargaining power of suppliers in order to reduce operating costs and increase profitability but are rather concentrating on intensifying rivalry among themselves.

In most industries new entrants cannot enter and compete on the same level as long established organisations (Hitt, Ireland & Hoskisson 2010: 52). One of the reasons air fares have declined in the years after liberalization is the practice of established carriers to fight aggressively for customers by meeting the competitive challenge of new rivals in the marketplace. When any carrier, whether new or established, large or small, enters a market for the first time, it changes the competitive dynamics. Airlines already serving the market have little choice but to respond, whether the new rival is a newcomer or a well-established carrier and the most basic competitive response is to match price (Grant 2008: 38). Traditional market leaders often tend to exhibit complacency and arrogance in the face of newcomers and only respond to competition from existing, already well established airlines, especially when the new entrant moves into untapped and undeveloped

markets on the fringe of the existing market. This is also true in developing markets where a traditional airline's market share continues to grow but its overall share of the market declines as a result of newcomers in the market (Ryans 2009: 86). Supply side economies of scale however, often deter entry as existing companies that produce in large volumes enjoy low unit costs as they can spread their fixed costs over more units, already have well established favourable business terms with suppliers and make use of efficient technology (Porter 2008). The effectiveness of barriers to entry is also determined by the resources and capabilities of new entrants (Grant 2005: 78).

Post, Lawrence and Weber (2002: 479) point out that governments and regulatory forces can directly affect how organisations operate within a given industry by maintaining barriers to entry, regulating prices, imposing restrictions on practices regarded as counter to public interest and implementing policies on mergers and acquisitions to protect competition. In Zimbabwe, government intervention and assistance has been prevalent in the control and provision of certain goods and services directly to the public, as a way of commanding the economy, achieving distributive justice, economic sovereignty and reducing poverty through the provision of public goods and services to economically disadvantaged masses. The research identified that government, through its policies, directly impacts on the economy and consequently entities operating within its confines. This intervention has negatively affected the profitability of Air Zimbabwe as viewed by participants. In addition, there are several laws, statutory instruments, government arms and industry associations that govern the manner in which airlines operate. The regulation of the airline industry therefore directly impacts on profitability and competitiveness as there are cost implications as airlines endeavour to comply with set regulations.

The individual stakeholder who was identified as having the individual capacity to improve the airline's profitability was the Government of Zimbabwe who is the 100% shareholder. Sanctions have affected many industries through closure and the shifting of operations to South Africa with those that are operational only operating at an estimated capacity utilisation of 40%. Additionally, continuous failure to honour Bilateral Investment Protection Agreements has limited direct investment into the country. Although prime markets such as Japan, Germany and the United States of America have lifted travel warnings to Zimbabwe, they are still governed by sanctions imposed on the country. It is imperative that policies implemented by the Government of Zimbabwe attract both foreign and local investment.

Even though poverty alleviation, job creation, health issues and raising basic living standards are prioritized by the Zimbabwean Government there is a need to recognize aviation as an economic driver and to develop policies that support it. Respondents noted that adequate funding is necessary to capacitate Air Zimbabwe such that it can compete with foreign airlines.

The gradual liberalisation towards open skies was believed to lead to a decline in air fares prevailing in Zimbabwe. However, it was shown that it is normal industry practice for airline fares to be seat cost driven so such a decline will be limited by the cost structure prevalent in the economy. The major reason identified for distortions in airfares when compared to flight distance are government taxes, airport and other regulatory authorities taxes and airline surcharges to hedge against fuel and insurances increases. Nevertheless interviewees indicated that competition is healthy and the open skies policy will positively impact the airline through

improved cost management and a reduction and more efficient utilisation of employees.

Since the airline was chosen as a 'worst case' in a volatile industry, research results speak to any organisation in a volatile environment. The competitive environment in which organisations operate is bound by existing and possible relations among role players. In addition, industry players can, through certain actions, increase or decrease the bargaining power of each other. Therefore, it is imperative that any entity operating in a volatile environment constantly monitors its strategies and relations with industry role players so as to ensure both competitiveness and profitability.

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